

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2015 and 2014

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
FINANCIAL STATEMENTS  
September 30, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Washington Square Health Foundation, Inc.  
Chicago, Illinois

***Report on the Financial Statements***

We have audited the accompanying financial statements of Washington Square Health Foundation, Inc. (the Foundation), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Square Health Foundation, Inc. as of September 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*

Crowe Horwath LLP

Chicago, Illinois  
January 21, 2016

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,054,999	\$ 1,178,647
Investments, at fair value (Note 3)		
Money market funds	-	41,002
Domestic convertible securities funds	937,025	-
Domestic equity funds	108,854	256,341
International equity funds	4,396,808	-
International and global mutual funds	-	9,076,144
Domestic small cap mutual funds	1,642,256	2,518,641
Domestic middle cap mutual funds	1,716,405	-
Domestic large cap mutual funds	5,192,076	1,516,963
Commingled equity funds	76,127	129,847
Long-term growth equity fund	12,599	1,548,699
Commodities and natural resources mutual funds	-	800,586
Fixed income mutual funds	<u>2,113,254</u>	<u>2,187,532</u>
Total investments	16,195,404	18,075,755
Other receivable	3,248	-
Prepaid expenses and other assets	28,235	20,162
Program-related investments, net (Note 7)	747,498	857,039
Furniture and equipment, net	20,154	20,772
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 18,056,509</u>	<u>\$ 20,159,346</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 40,867	\$ 81,742
Employee benefit plans (Note 6)	<u>268,571</u>	<u>256,341</u>
	309,438	338,083
Unrestricted net assets	<u>17,747,071</u>	<u>19,821,263</u>
Total liabilities and net assets	<u>\$ 18,056,509</u>	<u>\$ 20,159,346</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating activities		
Revenue		
Interest and dividends	\$ 458,037	\$ 174,837
Net realized gain on investments	2,144,447	2,243,051
Other	<u>7,265</u>	<u>5,684</u>
Total operating revenue	2,609,749	2,423,572
Expenses		
Grants	443,462	513,177
Management and general		
Salaries	309,596	296,145
Employee benefit plans (Note 6)	70,477	67,275
Payroll taxes	18,751	17,934
Professional fees		
Investment management and custodial	33,263	81,071
Legal and accounting	34,123	39,415
Diabetes program meeting	576	1,581
Board fees and expenses	84,883	116,086
Occupancy	45,126	45,854
Office supplies	15,133	16,109
Insurance	37,775	33,130
Depreciation	8,722	5,277
Miscellaneous	<u>68,850</u>	<u>79,917</u>
Total management and general	727,275	799,794
Provision for federal excise taxes	<u>54,163</u>	<u>50,000</u>
Total operating expenses	<u>1,224,900</u>	<u>1,362,971</u>
Change in operating revenue, gains, and losses	1,384,849	1,060,601
Nonoperating activities – net unrealized loss on investments	<u>(3,459,041)</u>	<u>(1,680,980)</u>
Change in net assets	(2,074,192)	(620,379)
Unrestricted net assets, beginning of year	<u>19,821,263</u>	<u>20,441,642</u>
Unrestricted net assets, end of year	<u>\$ 17,747,071</u>	<u>\$ 19,821,263</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,074,192)	\$ (620,379)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain (loss) on investments	1,314,594	(562,071)
Depreciation	8,722	5,277
Changes in assets and liabilities:		
Accrued interest and dividends receivable	-	2,500
Other receivable	(3,248)	-
Prepaid expenses and other assets	(8,073)	4,063
Accounts payable and accrued expenses	(40,875)	38,297
Employee benefit plans	<u>12,230</u>	<u>38,479</u>
Net cash used in operating activities	<u>(790,842)</u>	<u>(1,093,834)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposition of investments	14,677,204	9,529,596
Purchase of investments	(14,111,447)	(8,101,168)
Purchase of furniture and equipment	(8,104)	(11,801)
Repayment and forgiveness of program related investments	234,541	213,535
Issuance of program related investments	<u>(125,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>667,194</u>	<u>1,630,162</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(123,648)</b>	<b>536,328</b>
Cash and cash equivalents, beginning of year	<u>1,178,647</u>	<u>642,319</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,054,999</u></b>	<b><u>\$ 1,178,647</u></b>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2015 and 2014

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**NOTE 1 - DESCRIPTION OF FOUNDATION**

The Washington Square Health Foundation, Inc. (the Foundation) was established from the proceeds of the sale of Henrotin Hospital (the Hospital) in 1985. The Foundation supports various charitable, scientific, and educational activities and does not solicit donations.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation: The Foundation's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. The net assets and related activity of the Foundation are classified as unrestricted, as they are not subject to donor-imposed restrictions.

Cash Equivalents: Cash equivalents consist of short-term money market accounts, except such instruments that are part of the investment portfolio, which are classified as investments. Cash equivalents have a maturity of less than three months. The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

Investments: Publicly traded investments are carried at fair value based on quoted market prices. The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

Program-Related Investments: In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make investments that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are generally in the form of notes receivable with a 5% interest rate. These investments have a less than fair market value return. In the year of the investment, the Foundation receives a credit toward its distribution requirement related to its excise tax calculation (see Note 4). When the investment is repaid to the Foundation, it is required to recognize a negative distribution. These investments have been considered for possible impairment and have been valued at the lower of cost or fair value.

Furniture and Equipment: Office furniture and equipment are stated at cost. In general, the Foundation capitalizes assets with an original cost greater than \$100. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance, repairs, and minor renewals are charged to expense as incurred.

Grants: Grant awards are expensed when approved. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Operations: Operating results in the statement of activities reflect all transactions increasing or decreasing unrestricted net assets except for the net unrealized gain or loss on investments.

Use of Estimates: In order to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reporting of revenue, expenses, gains, and losses during the period. Actual results could differ from these estimates.

Excise Tax: The Foundation is subject to a federal excise tax on net investment income. The Foundation records an asset or liability for deferred excise tax based on unrealized taxable investment income and the current enacted tax rates.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to January 21, 2016, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2015. Management has performed their analysis through January 21, 2016, the date the financial statements were available to be issued.

**NOTE 3 – INVESTMENTS AND FAIR VALUE**

The Financial Accounting Standards Board (FASB) Codification Guidance, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This FASB establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The Foundation's 457b plan account is included in the following fair value hierarchy table.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2015 and 2014

**NOTE 3 - INVESTMENTS** (Continued)

Investments measured at fair value as of September 30, 2015 and 2014, are summarized below:

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
Domestic convertible securities funds	\$ 937,025	\$ -	\$ -	\$ 937,025
Domestic equity funds	108,854	-	-	108,854
International equity funds	4,396,808	-	-	4,396,808
Domestic small cap mutual funds	1,642,256	-	-	1,642,256
Domestic middle cap mutual funds	1,716,405	-	-	1,716,405
Domestic large cap mutual funds	5,192,076	-	-	5,192,076
Commingled equity funds	76,127	-	-	76,127
Long-term growth equity funds	12,599	-	-	12,599
Fixed income mutual funds	2,113,254	-	-	2,113,254
 Total investments	 \$ 16,195,404	 \$ -	 \$ -	 \$ 16,195,404
	2014			
	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ -	\$ 41,002	\$ -	\$ 41,002
Domestic equity funds	256,341	-	-	256,341
International and global mutual funds	9,076,144	-	-	9,076,144
Domestic small cap mutual funds	2,518,641	-	-	2,518,641
Domestic large cap mutual funds	1,516,963	-	-	1,516,963
Commingled equity funds	-	129,847	-	129,847
Long-term growth equity funds	1,548,699	-	-	1,548,699
Commodities and natural resources mutual funds	800,586	-	-	800,586
Total return mutual funds	2,187,532	-	-	2,187,532
 Total investments	 \$ 17,904,906	 \$ 170,849	 \$ -	 \$ 18,075,755

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - INVESTMENTS** (Continued)

The following are descriptions of the valuation methods and assumptions used by the Foundation to estimate the fair values of investments:

*Money Market Funds:* Fair values are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs)(Income approach).

*Domestic Convertible Securities Funds, Domestic Equity Funds, International Equity Funds, International and Global Mutual Funds, Domestic Small Cap Mutual Funds, Domestic Middle Cap Mutual Funds, Domestic Large Cap Mutual Funds, Commodities and Natural Resources Mutual Funds, Long-term Growth Equity Funds, and Fixed Income Mutual Funds:* The fair value of equity and mutual fund holdings that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs)(Market approach).

*Commingled Equity Funds:* The fair value of comingled equity funds is determined by quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices e.g. underlying security interest rates and yields (Level 2 inputs)(Market approach).

**NOTE 4 - INCOME TAXES**

The Foundation has received a determination letter from the Internal Revenue Service indicating it is a private foundation under Section 509(a) of the Internal Revenue Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act. The Act requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with IRC section 4942 and Form 990-PF. The Foundation's prior years excess distributions are sufficiently large enough to ensure that the Foundation will meet the minimum distribution requirements of section 4942 for the tax year ending September 30, 2016, even if no distributions are made during the tax year. The amount of Federal excise tax paid was \$80,270 and \$16,000 for the years ended September 30, 2015 and 2014, respectively.

No provision has been made for income taxes in the accompanying financial statements, as the Foundation has had no significant unrelated business income. If the Foundation incurs interest and penalties, the Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of September 30, 2015 or 2014. The Foundation has not been examined by any tax jurisdiction. The Foundation has no on-going federal, state or local tax audits, however, the Foundation's tax returns for 2011 and subsequent years are open to examination.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2015 and 2014

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**NOTE 4 - INCOME TAXES** (Continued)

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not to be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at September 30, 2015 and 2014. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

**NOTE 5 - LEASE COMMITMENT**

During fiscal years 2015 and 2014, the Foundation incurred \$45,126 and \$45,029, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2016	\$ 26,407
2017	27,030
2018	27,653
2019	28,277
2020	28,900
Thereafter	<u>110,273</u>
Total	<u>\$ 248,540</u>

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

The Foundation provides a qualified defined contribution plan to its employees. Amounts contributed by the Foundation to this plan were \$52,477 and \$49,775, during fiscal years 2015 and 2014, respectively.

The Foundation also provides a non-qualified deferred compensation plan to a key executive. Amounts contributed by the Foundation to this plan were \$18,000 and \$17,500 during fiscal years 2015 and 2014, respectively. As of September 30, 2015 and 2014, the total deferred compensation under the nonqualified deferred compensation plan was \$268,571 and \$256,341, respectively.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - PROGRAM-RELATED INVESTMENTS**

The Foundation makes program-related investments to various not-for-profit organizations based on need that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are generally in the form of notes receivable with a 5% interest rate. These investments have a less than fair market value return. At September 30, 2015 and 2014, investments represented 4.1% and 4.3% of total assets, respectively, with a total receivable balance of \$747,498 and \$857,039, respectively.

At September 30, 2015, investments consisted of the following principal payments due:

2016	\$ 256,954
2017	226,815
2018	150,815
2019	87,914
2020	<u>25,000</u>
Total program-related investments	<u>\$ 747,498</u>

In the year of the investment, the Foundation receives a credit toward its distribution requirement related to its excise tax calculation (see Note 4). When the investment is repaid to the Foundation, it is required to recognize a negative distribution. These investments have been considered for possible impairment and have been valued at the lower of cost or fair value.

At September 30, 2015 and 2014, there were no amounts past due under these investments. All program-related investments are expected to be fully collected and, therefore, no reserves are placed on any investment balances under the program.